

3 SEM TDC FIMGT 2 (Sp) (N/O)

2015

(November)

COMMERCE

(Speciality)

Course : 302

(Financial Management)

*The figures in the margin indicate full marks
for the questions*

(New Course)

Full Marks : 80

Pass Marks : 24

Time : 3 hours

1. (a) Write 'True' or 'False' : $1 \times 4 = 4$

- (i) Cash management is an important task of the finance manager.
- (ii) Every business concern should have excessive working capital.
- (iii) The cost of capital is the maximum rate of return expected by its investors.

(iv) Dividend is the reward of the shareholders for investment made by them in the shares of the company.

(b) Fill in the blanks : $1 \times 4 = 4$

- (i) _____ is the life blood and nerve centre of a business concern.
- (ii) Capital budgeting means planning for _____ assets.
- (iii) The redundant working capital gives rise to _____ transactions.
- (iv) Dividends paid in the ordinary course of business are known as _____ dividends.

2. Write short notes on any four of the following : $4 \times 4 = 16$

- (a) Wealth maximization
- (b) Net present value method
- (c) Weighted average cost of capital
- (d) Management of working capital
- (e) Regular dividend policy

3. (a) "Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximizing shareholders' wealth." Comment. 14

Or

(b) Define 'financial management'. Explain the objectives of financial management. Why is maximizing wealth a better goal than maximizing profits? $3+7+4=14$

4. (a) Define the term 'working capital'. What factors you have to take into consideration in estimating the working capital needs of a concern? $3+11=14$

Or

(b) The following information has been extracted from the Cost Sheet of a company :

| | ₹ | (per unit) |
|---------------|---|------------|
| Raw Materials | | 45 |
| Direct Labour | | 20 |
| Overheads | | 40 |
| | | <u>105</u> |
| Profit | | 15 |
| | | <u>120</u> |
| Selling Price | | |

The following further information is available :

- (i) Raw materials are in stock on an average of two months
- (ii) The materials are in process on an average for 4 weeks. The degree of completion is 50% in all respects

- (iii) Finished goods are in stock on an average of one month
- (iv) Time lag in payment of wages and overheads is $1\frac{1}{2}$ weeks
- (v) Time lag in receipts of proceeds from debtors is 2 months
- (vi) Credit allowed by suppliers is one month
- (vii) 20% of output is sold against cash
- (viii) The company expects to keep a cash balance of ₹ 1,00,000
- (ix) Take 52 weeks per annum
- (x) Calculation of debtors may be made at selling price
- (xi) The company is poised for a manufacture of 14400 units in the year

You are required to prepare a statement showing the working capital requirements of the company.

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5. (a) Explain briefly the following methods of capital budgeting bringing out the advantages and disadvantages of each :

7+7=14

- (i) Payback period method
- (ii) Accounting rate of return method

Or

(b) (i) X Ltd. issues ₹ 50,000, 8% debentures at par. The tax rate applicable to the company is 50%.

Compute the cost of debt capital.

(ii) Y Ltd. issues ₹ 50,000, 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%.

Compute the cost of debt capital.

(iii) A Ltd. issues ₹ 50,000, 8% debentures at a discount of 5%. The tax rate is 50%.

Compute the cost of debt capital.

(iv) B Ltd. issues ₹ 1,00,000, 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate applicable is 60%.

Compute the cost of debt capital.

$$3\frac{1}{2} \times 4 = 14$$

6. (a) There is strong view prevalent among financial experts that the irrelevant hypothesis underlying the MM theory of dividend distribution is out-dated and unsuited to present conditions.

Do you agree with this view? Discuss. 14

(6)

Or

(b) (i) What is 'dividend'? Discuss the various forms of dividend. $2+5=7$

(ii) What do you understand by a stable dividend policy? Why should it be followed? $4+3=7$

(Old Course)

Full Marks : 80

Pass Marks : 32

Time : 3 hours

1. (a) Write 'True' or 'False' : $1 \times 4 = 4$

(i) The main aim of finance function is to maximize the profits.

(ii) Capital budgeting is the process of making investment decisions in capital expenditures.

(iii) Ownership securities are represented by debentures.

(iv) New issue market represents the primary market.

(b) Fill in the blanks : $1 \times 4 = 4$

(i) Financial decisions involve investment, financing and _____ decisions.

(ii) Combined Leverage = Operating Leverage \times _____ Leverage

(iii) The value of the firm can be maximized, if the shareholders' _____ is maximized.

(iv) Adequacy of _____ is a must for maintaining solvency and continuing production.

2. Write short notes on any four of the following : 4×4=16

- (a) Profit maximization
- (b) Optimal capital structure
- (c) Capital market instruments
- (d) Retained earnings
- (e) Receivable management

3. (a) What is financial management? Discuss the objectives of financial management. 4+8=12

Or

(b) Discuss the profit maximization and wealth maximization concept of financial management. 6+6=12

4. (a) What is cost of capital? How are cost of debt and cost of equity capital computed? Write in brief about weighted average cost of capital.

2+3+3+3=11

Or

(b) Following information is taken from the records of a hypothetical company :

Installed capacity—1000 units

Operating capacity—800 units

Selling price per unit—₹ 10

Variable cost per unit—₹ 7

Calculate operating leverage from the following situations :

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| <i>Fixed Cost</i> | ₹ |
|-------------------|-------|
| Situation A | 800 |
| Situation B | 1,200 |
| Situation C | 1,500 |

5. (a) Discuss in detail the sources of long-term finance of a company form of business organization.

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Or

(b) What is 'capital market'? What are the functions of a capital market? Distinguish between capital market and money market.

2+5+4=11

6. (a) Discuss the various types of dividend policies. State the various forms of dividends on the basis of payments.

6+5=11

Or

(b) There is a strong view prevalent among financial experts that irrelevant hypothesis underlying the M & M approach of dividend distribution is out-dated and unsuited to present condition. Do you agree with this view? Discuss.

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7. (a) What is meant by 'inventory management'? Discuss various techniques used for inventory control.

3+8=11

Or

(b) A pro forma cost sheet of a company provides the following particulars :

Elements of cost :

Direct material—40%

Direct labour—20%

Overheads—20%

The following further particulars are available :

(i) It is proposed to maintain a level of activity of 200000 units

- (ii) Selling price is ₹ 12 per unit
- (iii) Raw materials are expected to remain in stores for an average period of one month
- (iv) Finished goods are required to be in stock for an average period of one month
- (v) Materials will be in process for an average period of half month
- (vi) Credit allowed to debtors is two months
- (vii) Credit allowed by supplier is one month

From the above information, you are required to prepare a statement of working capital requirements.

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